



# Interim Audit Report of the Audit Division on the Washington State Republican Party

January 1, 2009 - December 31, 2010

## Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.<sup>1</sup> The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

## Future Action

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

## About the Committee (p. 2)

The Washington State Republican Party is a state party committee headquartered in Bellevue, Washington. For more information, see the chart on the Committee Organization, p. 2.

## Financial Activity (p. 2)

• <b>Federal Receipts</b>	
○ Contributions from Individuals	\$1,844,135
○ Contributions from Political Committees	900,961
○ Transfers from Affiliated and Other Political Committees	527,887
○ Transfers from Non-federal and Levin Funds	462,069
○ Other Receipts	44,356
<b>Total Federal Receipts</b>	<b>\$3,779,408</b>
• <b>Federal Disbursements</b>	
○ Operating Expenditures	\$3,753,148
○ Transfers to Affiliated and Other Political Committees	32,334
○ Contributions to Other Committees	27,900
○ Federal Election Activity	103,626
○ Refunds/Other Disbursements	23,837
<b>Total Federal Disbursements</b>	<b>\$3,940,845</b>
• <b>Levin Receipts</b>	<b>\$15,000</b>
• <b>Levin Disbursements</b>	<b>\$32,000</b>

## Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Misstatement of Financial Activity – Levin Fund (Finding 2)
- Reporting of Debts and Obligations (Finding 3)

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<sup>1</sup> 2 U.S.C. §438(b).

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# **Table of Contents**

	<b>Page</b>
<b>Part I. Background</b>	
Authority for Audit	1
Scope of Audit	1
<b>Part II. Overview of Committee</b>	
Committee Organization	2
Overview of Financial Activity	2
<b>Part III. Summaries</b>	
Findings and Recommendations	3
<b>Part IV. Findings and Recommendations</b>	
Finding 1. Misstatement of Financial Activity	4
Finding 2. Misstatement of Financial Activity – Levin Fund	6
Finding 3. Reporting of Debts and Obligations	8

# **Part I**

## **Background**

### **Authority for Audit**

This report is based on an audit of the Washington State Republican Party (WSRP), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the Federal Election Campaign Act of 1971, as amended (the Act). The Audit Division conducted the audit pursuant to 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. Prior to conducting any audit under this subsection, the Commission must perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act. 2 U.S.C. §438(b).

### **Scope of Audit**

Following Commission-approved procedures, the Audit staff evaluated various risk factors and as a result, this audit examined:

1. the disclosure of individual contributors' occupation and name of employer;
2. the disclosure of disbursements, debts and obligations;
3. the disclosure of expenses allocated between federal and non-federal accounts;
4. the consistency between reported figures and bank records;
5. the completeness of records; and
6. other committee operations necessary to the review.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	
• Date of Registration	October 14, 1975
• Audit Coverage	January 1, 2009 - December 31, 2010
<b>Headquarters</b>	
Bellevue, Washington	
<b>Bank Information</b>	
• Bank Depositories	Two
• Bank Accounts	Eleven Federal, Nine Non-federal, and One Levin
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Colleen Morse
• Treasurer During Period Covered by Audit	Ed Mitchell: February 19, 2005 - July 18, 2009 Colleen Morse: July 19, 2009 - Present
<b>Management Information</b>	
• Attended FEC Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

#### Overview of Financial Activity (Audited Amounts)

<b>Federal Cash-on-hand @ January 1, 2009</b>	<b>\$ 155,272</b>
o Contributions from Individuals	1,844,135
o Contributions from Political Committees	900,961
o Transfers from Affiliated and Other Political Committees	527,887
o Transfers from Non-federal and Levin Funds	462,069
o Other Receipts	44,356
<b>Total Federal Receipts</b>	<b>\$3,779,408</b>
o Operating Expenditures	3,753,148
o Transfers to Affiliated and Other Political Committees	32,334
o Contributions to Other Committees	27,900
o Federal Election Activity	103,626
o Refunds/Other Disbursements	23,837
<b>Total Federal Disbursements</b>	<b>\$3,940,845</b>
<b>Federal Cash-on-hand @ December 31, 2010</b>	<b>(\$6,165)</b>
<b>Levin Cash-on-hand @ January 1, 2009</b>	<b>\$17,001</b>
<b>Total Levin Receipts</b>	<b>\$15,000</b>
<b>Total Levin Disbursements</b>	<b>\$32,000</b>
<b>Levin Cash-on-hand @ December 31, 2010</b>	<b>\$1</b>

## **Part III**

### **Summaries**

#### **Findings and Recommendations**

##### **Finding 1. Misstatement of Financial Activity**

A comparison of WSRP's reported activity to bank records revealed a misstatement of its beginning cash-on-hand and receipts for 2009 and a misstatement of receipts, disbursements and ending cash-on-hand for 2010. For 2009, WSRP understated beginning cash-on-hand by \$30,321 and overstated receipts by \$45,641. In 2010, receipts were understated by \$697,155, disbursements were understated by \$1,062,382 and ending cash-on-hand was overstated by \$362,753. The Audit staff recommends that WSRP amend its disclosure reports to correct these misstatements. (For more detail, see p. 4)

##### **Finding 2. Misstatement of Financial Activity – Levin Fund**

A comparison of WSRP's reported activity to bank records revealed a misstatement of its beginning cash-on-hand and disbursements for 2009 and a misstatement of disbursements and ending cash-on-hand for 2010. For 2009, WSRP overstated beginning cash-on-hand by \$32,499 and overstated disbursements by \$32,499. In 2010, disbursements were understated by \$15,000 and ending cash-on-hand was overstated by \$12,500. The Audit staff recommends that WSRP amend its disclosure reports to correct these misstatements. (For more detail, see p. 6)

##### **Finding 3. Reporting of Debts and Obligations**

During audit fieldwork, the Audit staff identified debts to five vendors that WSRP failed to report in calendar years 2009 and 2010. Debts totaling \$361,838 were not reported. The Audit staff recommends that WSRP amend its disclosure reports to disclose these debts on Schedule D (Debts and Obligations). (For more detail, see p. 8)

## Part IV

# Findings and Recommendations

### Finding 1. Misstatement of Financial Activity

#### Summary

A comparison of WSRP's reported activity to bank records revealed a misstatement of its beginning cash-on-hand and receipts for 2009 and a misstatement of receipts, disbursements and ending cash-on-hand for 2010. For 2009, WSRP understated beginning cash-on-hand by \$30,321 and overstated receipts by \$45,641. In 2010, receipts were understated by \$697,155, disbursements were understated by \$1,062,382 and ending cash-on-hand was overstated by \$362,753. The Audit staff recommends that WSRP amend its disclosure reports to correct these misstatements.

#### Legal Standard

**Contents of Reports.** Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the calendar year;
- The total amount of disbursements for the reporting period and for the calendar year; and
- Certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

#### Facts and Analysis

##### A. Facts

During audit fieldwork, the Audit staff reconciled reported activity to bank records for 2009 and 2010. It determined that WSRP misstated the beginning cash balance and receipts for 2009 and receipts, disbursements and its ending cash balance for 2010. The following charts outline the discrepancies for the cash balances, receipts and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements, if known.

<b>2009 Committee Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Beginning Cash Balance @ January 1, 2009	\$124,951	\$155,272	\$30,321 Understated
Receipts	\$852,256	\$806,615	\$45,641 Overstated
Disbursements	\$970,577	\$952,783	\$17,794 Overstated
Ending Cash Balance @ December 31, 2009	\$6,630	\$9,104	\$2,474 Understated

The beginning cash-on-hand was understated by \$30,321 and is unexplained, but likely resulted from prior period discrepancies.

The overstatement of receipts resulted from the following:

- Reported transfers from Levin (\$32,499) and non-federal accounts (\$30,691) that were not supported by bank deposits or checks/debits by the transferring accounts - \$63,190
- Transfers from affiliated committee and non-federal account not reported + 15,097
- Unexplained differences + 2,452
- Net Overstatement of Receipts \$45,641**

<b>2010 Committee Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Beginning Cash Balance @ January 1, 2010	\$6,630	\$9,104	\$2,474 Understated
Receipts	\$2,275,638	\$2,972,793	\$697,155 Understated
Disbursements	\$1,925,680	\$2,988,062	\$1,062,382 Understated
Ending Cash Balance @ December 31, 2010	\$356,588	-\$6,165	\$362,753 Overstated



The understatement of receipts resulted from the following:

• Transfer from Levin Fund not reported	+ \$3,000
• Transfers from non-federal accounts not reported	+ 109,078
• Transfers from political committees not reported	+ 487,215
• Contributions from individuals not reported	+ 93,337
• In-kind contributions not reported as receipts	+ 10,976
• Reported transfer not supported by bank deposits	- 11,675
• Reported contribution not supported by bank deposit	- 5,000
• Unexplained differences	+ 10,224
<b>Net Understatement of Receipts</b>	<b><u>\$697,155</u></b>

The understatement of disbursements resulted from the following:

• Payroll expenditures not reported	+ \$33,457
• Expenditures not reported	+ 1,023,213
• Transfers to political committees not reported	+ 25,000
• Contributions to other committees not reported	+ 10,000
• Reported disbursements not supported by checks or debits	- 24,185
• Unexplained differences	- 5,103
<b>Net Understatement of Disbursements</b>	<b><u>\$1,062,382</u></b>

The majority of the \$1,023,213 in expenditures not reported included costs associated with mail pieces provided by nine vendors totaling \$882,966.

The \$362,753 overstatement of the ending cash-on-hand was the result of the misstatements described above.

#### **B. Interim Audit Report & Audit Division Recommendation**

This matter was discussed with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Audit staff recommends that, within 30 calendar days of service of this report, WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010, and amend its most recently filed report to correct the cash-on-hand balance with an explanation that the change resulted from a prior period audit adjustment.

Further, WSRP should reconcile the cash balance of its most recent report to identify any subsequent discrepancies that may affect the adjustment recommended by the Audit staff.

### **Finding 2. Misstatement of Financial Activity - Levin**

#### **Summary**

A comparison of WSRP's reported activity to bank records revealed a misstatement of its beginning cash-on-hand and disbursements for 2009 and a misstatement of disbursements and ending cash-on-hand for 2010. For 2009, WSRP overstated beginning cash-on-hand

by \$32,499 and overstated disbursements by \$32,499. In 2010, disbursements were understated by \$15,000 and ending cash-on-hand was overstated by \$12,500. The Audit staff recommends that WSRP amend its disclosure reports to correct these misstatements.

### **Legal Standard**

**Contents of Levin Reports.** Each report must disclose:

- The amount of cash-on-hand for Levin funds at the beginning and end of the reporting period;
- The total amount of Levin fund receipts and disbursements (including allocation transfers) for the reporting period and for the calendar year;
- Certain transactions that require itemization on Schedule L-A (Itemized Receipts of Levin Funds) or Schedule L-B (Itemized Disbursements of Levin Funds). 11 CFR §300.36 (b)(2)(B).

### **Facts and Analysis**

#### **A. Facts**

During audit fieldwork, the Audit staff reconciled reported Levin activity to bank records for 2009 and 2010. It determined that WSRP misstated beginning cash balance and disbursements for 2009 and disbursements and ending cash-on-hand for 2010. The following charts outline the discrepancies for the cash balances, receipts, and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements.

<b>2009 Committee Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Beginning Cash Balance @ January 1, 2009	\$49,500	\$17,001	\$32,499 Overstated
Receipts	\$0	\$0	\$0
Disbursements	\$49,499	\$17,000	\$32,499 Overstated
Ending Cash Balance @ December 31, 2009	\$1	\$1	\$0

The beginning cash balance was overstated by \$32,499 and is unexplained, but likely resulted from prior period discrepancies.

The overstatement of disbursements resulted when WSRP erroneously reported transfers of \$32,499 to the federal account. These transactions are also identified as an adjustment to the federal bank reconciliation (see Finding 1, page 5). These transfers appear to have been reported to correct the overstatement of cash-on-hand at January 1, 2009.

<b>2010 Committee Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Beginning Cash Balance @ January 1, 2010	\$1	\$1	\$0
Receipts	\$12,500	\$15,000	\$2,500 Understated
Disbursements	\$0	\$15,000	\$15,000 Understated
Ending Cash Balance @ December 31, 2010	\$12,501	\$1	\$12,500 Overstated

WSRP did not report a \$15,000 transfer it made to the federal account. The \$12,500 overstatement of the ending cash balance was the result of the misstated receipts and disbursements noted above.

#### **B. Interim Audit Report & Audit Division Recommendation**

This matter was discussed with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Audit staff recommends that, within 30 calendar days of service of this report, WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010.<sup>2</sup>

### **Finding 3. Reporting of Debts and Obligations**

#### **Summary**

During audit fieldwork, the Audit staff identified debts to five vendors that WSRP failed to report in calendar years 2009 and 2010. Debts totaling \$361,838 were not reported. The Audit staff recommends that WSRP amend its disclosure reports to disclose these debts on Schedule D (Debts and Obligations).

#### **Legal Standard**

**A. Continuous Reporting Required.** A political committee must disclose the amount and nature of outstanding debts and obligations until those debts are extinguished. 2 U.S.C. §434(b)(8) and 11 CFR §§104.3(d) and 104.11(a).

**B. Separate Schedules.** A political committee must file separate schedules for debts owed by and to the committee with a statement explaining the circumstances and conditions under which each debt and obligation was incurred or extinguished. 11 CFR §104.11(a).

<sup>2</sup> WSRP has not reported any Levin activity for calendar year 2011.

**C. Itemizing Debts and Obligations.**

- Once it has been outstanding 60 days from the date incurred, a debt of \$500 or less must be reported on the next regularly scheduled report.
- A debt exceeding \$500 must be disclosed in the report that covers the date on which the debt was incurred. 11 CFR §104.11(b).

**Facts and Analysis****A. Facts**

The Audit staff reviewed vendor invoices and computer files containing WSRP disbursements made in 2009 and 2010. Although WSRP paid the majority of invoices timely, it carried outstanding balances with five vendors that were not disclosed as debts on Schedule D. The debts totaled \$361,838.<sup>3</sup>

**B. Interim Audit Report & Audit Division Recommendation**

The Audit staff informed WSRP representatives of this matter at the exit conference and provided schedules detailing the undisclosed debts for each reporting period. WSRP representatives made no comment on this matter.

The Audit staff recommends that, within 30 calendar days of service of this report, WSRP amend its reports to disclose the debts and obligations addressed above.

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<sup>3</sup> Each debt in this amount was counted once. In order for WSRP to correctly file amended reports, a schedule was provided that includes the amount of each debt required to be reported for each reporting period.